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BUILDING FINANCIAL CAPACITY FOR SCHOOL BOARD TRUSTEES AND SUPERINTENDENTS

REPORT OF THE ADVISORY TASK FORCE

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Submitted to
the Honourable Dave Hancock
Minister of Education

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Alberta

Government of Alberta

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EXECUTIVE SUMMARY

Background

On April 30, 2008, Janice Sarich, MLA, Edmonton-Decore, was appointed as the parliamentary assistant to the Minister of Education. In this role, she is responsible for supporting the government's five priorities and for assisting the Honourable Dave Hancock, Minister of Education, with his mandate initiatives and business plan goals.

As outlined in the letter from the Minister of Education in Appendix 1, the parliamentary assistant is responsible for overseeing certain specific initiatives as follows:

- assess Ministry and government policy as it relates to the administration of public funds, and develop an accountability framework for the financial oversight of school districts that respects the autonomy of elected school boards and the critical role they have in the governance of the education system;
- review the recommendations of the auditor general and other financial oversight processes to identify improvements in the financial monitoring of school boards; and
- support the development of financial and administrative policy requirements to reinforce the decision-making process for elected school trustees and improve the evaluation of education initiatives and strategies.

During the 2005–2006 audit year, the Office of the Auditor General of Alberta examined the budgeting process of 13 selected school boards, as well as the processes that Alberta Education uses for monitoring the financial condition of school boards. As a result of the findings, the auditor general recommended that Alberta Education improve school board budgeting processes and work with key stakeholder associations to set minimum standards for financial monitoring information provided to school board trustees. (See Appendix 3).

In light of the auditor general's recommendations and the parliamentary assistant roles and responsibilities, the Advisory Task Force on Building Financial Capacity for School Board Trustees and Superintendents (the Task Force) was assembled to conduct a review of the training that school board trustees and superintendents need in order to oversee the financial affairs and financial health of school boards in Alberta. The Task Force also focused on minimizing administrative processes for school jurisdictions where possible.

To maximize resources and minimize costs, the Task Force evaluated proposed changes and their financial implications in light of the work that had already been completed by stakeholder groups.

The role of the Task Force was to conduct a thorough review, identify issues, and develop and implement processes for improvement in three key priority areas: budget

systems and processes, financial monitoring, and capacity building for school board trustees and superintendents.

Advice to the Minister

The Task Force identified ways to improve the school board budgeting and monitoring process and give school board trustees and other senior education leaders the knowledge and resources they require to fulfill their financial oversight responsibilities.

Budget Systems and Processes

While recognizing that the availability of information on grant rate changes is not entirely within Alberta Education's control, the Task Force indicated that Alberta Education should provide school jurisdictions with this information as early in the calendar year as possible.

School jurisdiction management should understand that they must fully discuss all plans, assumptions, and risks with the board of trustees before asking the board to approve the budget documents. These plans, assumptions, and related risks should be disclosed in the budget documents, take into account the economic environment of the jurisdiction, focus on planned changes from the previous school year, and be realistic and consistent with the jurisdiction's three-year education plan.

At a minimum, these disclosures should include

- key budget assumptions, such as student enrolments, grant rate increases, salary increases, and inflation rates;
- financial and business risks, such as increases in interest rates and in fuel prices; and
- specific strategies explaining how the budget supports the three-year education plan.

The requirement to provide budget updates to the board should continue. At a minimum, these updates should provide comparisons to the original budget in terms of revenues, expenses, accumulated operating surplus or deficit, full-time equivalents (FTEs) for certificated staff, and eligible funded students, along with an explanation of significant variances.

Financial Monitoring

Alberta Education has a role in supporting boards in their financial oversight activities. It does so partly through oversight activities such as reviewing budgets, updates, and audited financial statements. In addition to maintaining these activities, superintendents and senior administration may wish to introduce quarterly interim reports, if they have not already done so, for submission to their boards. Quarterly reports would provide boards with guidance in evaluating their financial condition. Alberta Education should work with the Association of School Business Officials of Alberta (ASBOA) to establish a guideline and suggested range for the amount of boards' accumulated operating surpluses to assist boards in assessing their financial condition.

In order to help the board of trustees establish and maintain a strong financial oversight function, school boards should be encouraged to have an audit committee and an internal audit function, where appropriate.

Capacity Building for School Board Trustees and Superintendents

The key to empowering school board trustees and superintendents to fulfill their roles and duties is to ensure that resources and training are available, accessible, and designed to address the specific skills and competencies required for each role. The Task Force recognized an opportunity to work collaboratively to enhance existing resources previously developed by stakeholder organizations.

For example, the existing training program, Financial Accountability for Alberta's School Boards, could be adapted to fill the gap in available training for trustees who require a more comprehensive financial literacy program to help them fulfill their role in financial oversight. The existing program was developed by the Alberta School Boards Association (ASBA), in collaboration with the College of Alberta School Superintendents (CASS), ASBOA, and Alberta Education. It focuses on understanding the basics of budgeting and accounting, and should be delivered by a financial expert practised in school business.

A comprehensive financial literacy program that builds on the ASBA module should be developed to provide participants with a detailed understanding of financial reporting. ASBOA should co-lead the development of this program with Alberta Education, with input from the ASBA and CASS. A key component of the program would be instructing participants on how to formulate and ask clarifying questions of the superintendent, senior administration, and external auditors. The program should be delivered by a financial expert practised in school business.

The Elected Official Education Program, which was developed by the Alberta Urban Municipalities Association and the Alberta Association of Municipal Districts and Counties, is a strong program that could be enhanced to provide further advanced training for school board trustees. The ASBA, Alberta Education, the Alberta Urban Municipalities Association, and the Alberta Association of Municipal Districts and Counties should work collaboratively to determine how the existing program could be modified to meet the needs of school board trustees and superintendents.

The Task Force recognized the value in continuing education programs for school board trustees and superintendents. Programs are also available from a multitude of organizations for those interested in furthering their professional development.

Best Practices

To assist school board trustees and superintendents, the Task Force developed a set of best practices (Appendix 6) to improve the efficiency and effectiveness of school jurisdiction financial oversight. A checklist of these best practices may be used to assess the current practices of individual jurisdiction oversight activities.

THE TASK FORCE

As outlined in Appendix 2 – Advisory Task Force Terms of Reference, the role of the Task Force was to conduct a thorough review to identify issues and develop processes for implementation and improvement in three key priority areas:

- budget systems and processes,
- financial monitoring, and
- capacity building for school board trustees and superintendents.

Focus

The main goals of the Task Force were to

- review and enhance budget practices and processes used by school boards;
- enhance school board trustee capacity in areas of financial oversight;
- review monitoring practices used by school board trustees and assess school board financial policies necessary to ensure the consistency of financial monitoring; and
- review current training opportunities for school board trustees and superintendents, and explore opportunities for enhancing their financial capacity through further training.

Review Process

The review process followed a consensus model aimed at developing a set of best practices against which boards could measure their current financial oversight activities.

Membership

The Task Force was made up of representatives of Alberta Education and three representatives from each of the following stakeholder groups:

- the Alberta School Boards Association (ASBA),
- the College of Alberta School Superintendents (CASS), and
- the Association of School Business Officials of Alberta (ASBOA).

The role of the ASBA, CASS, and ASBOA was to provide stakeholder input from a provincial perspective and to provide education leadership expertise.

The role of Alberta Education was to collaborate with education stakeholders to improve school board accountabilities and governance, to streamline school board administrative practices, and to implement improvements to Alberta Education's financial monitoring practices.

Resources

The Task Force consulted the following resources in the course of the review:

- the recommendations of the *Annual Report of the Auditor General of Alberta 2005–2006*,
- the results of the ASBA School Board Financial Health Project,
- the publications of ASBOA,
- current financial oversight processes, and
- current training available for school board trustees and superintendents.

Delivery

The process included facilitated discussions with presenters and committee members, led by an independent consultant. The Task Force reviewed and analyzed the resources already provided by Alberta Education, education stakeholder groups, and professional organizations. The process also included the development of best practices and advice for the Minister of Education.

Presentations

Guest presenters were selected to provide a comprehensive description of the current challenges faced by school board trustees, superintendents, and senior administration. Presenters also identified work that has already been done in response to these challenges, other resources that could be used to maximize efficiencies in the development of training and tools, different governance models, and the way the challenges affect the role and the scope of the responsibilities and accountabilities of school board trustees and superintendents.

Office of the Auditor General

Merwan Saher, assistant auditor general, and Al Neid, audit principal, presented the findings of the 2005–2006 budget process audit and highlighted the auditor general's concerns about school board budgeting practices. By special request, Mr. Saher also talked about the purpose and benefits of the use of audit committees.

Association of School Business Officials of Alberta (ASBOA)

Christine Lee, director of finance with Lethbridge School District No. 51, presented the report *Financial Monitoring and Accountability*, by ASBOA's Ad Hoc Committee. The presentation included an overview of the *Financial Statement Readability Tool Kit*, developed in 2004 in partnership with Alberta Education and the Office of the Auditor General to provide school jurisdiction financial statement users with specific resources to assist them in understanding and interpreting financial statements. The Ad Hoc Committee was formed in response to the *Annual Report of the Auditor General 2005–2006* and included representatives from the major stakeholder groups. The mandate of

the committee was to review the auditor general's comments and provide recommendations.

Alberta School Boards Association (ASBA)

Dr. Warren Phillips, consultant with the ASBA, presented an overview of the Fiscal Accountability for Alberta's School Boards training program. This training was developed as a result of the School Board Financial Health Project, established to review the role of trustees in financial oversight and monitoring, jointly sponsored by Alberta Education and the ASBA with input from other education stakeholders. The project was implemented in response to the auditor general's recommendations. Dr. Phillips provided an overview of the five training modules, which included the roles and responsibilities of school board trustees. The training modules have been presented to more than 400 trustees and have been well received as introductory financial training.

Alberta Education

Dick Meanwell, director of the Financial Reporting and Accountability Branch, Alberta Education, presented the 2005–2006 recommendations of the auditor general from the government perspective. The presentation reviewed the history of school board accounting, which has changed from fund accounting to the current not-for-profit accounting. This change has introduced new concepts of accounting into school board reporting. The complexity of the current financial reporting process makes it even more important for school board trustees to be financially literate in order to fulfill their financial oversight responsibilities.

Alberta Urban Municipalities Association and Alberta Association of Municipal Districts and Counties

John McGowan, chief executive officer, and Sue Welke, director, both of Policy and Advocacy, presented the Elected Official Education Program, developed for elected officials by the Alberta Urban Municipalities Association and the Alberta Association of Municipal Districts and Counties. The presentation included the process for developing the business case and the program for the core competencies identified as essential to elected officials. As of March 2009, more than 400 elected officials have attended the 13 courses offered.

Rotman's School of Management Directors' Financial Literacy Program

Dr. Ramy Elitzur, Edward Kernaghan Professor in Financial Analysis at the University of Toronto, provided a presentation on governance and financial literacy. The presentation included governance issues and the various governance models that exist. Dr. Elitzur also discussed the differences between corporate and public sector financial literacy requirements, as well as the need for trustees to understand the importance of the accounting judgments made by management, the reasons why management makes certain judgments, and the impact of those judgments on the financial statements. Dr. Elitzur indicated that that every board member must be financially literate in order to fulfill the oversight responsibilities of the board position.

The presentation included a review and discussion of Alberta's school board financial statements. Dr. Elitzur reviewed the purpose, organization, and specific details of each statement, including the differences between business and not-for-profit statements. In light of the auditor general's recommendation on financial monitoring, the presentation also examined the importance and use of interim reports.

Budget Cycles

At the conclusion of the various presentations, Task Force participants were asked to share their own professional experiences and observations of what worked and what did not work in their own jurisdictions with regard to financial monitoring and budget systems and processes. All the input was collected and placed on a timeline that indicated when the activity took place in the budget cycle. The timeline showed that budget cycles differ from one jurisdiction to another in the timing of activities. However, similar activities take place as part of the budget cycle in all jurisdictions.

Reporting Timelines

The financial reporting and accountability system established by the *School Act* and the Minister requires school boards to submit the following to Alberta Education each year:

- a three-year education plan setting out the educational goals and strategies of the board—by May 31;
- a budget report outlining the board-approved budget—by May 31;
- a budget update that captures changes to the original budget—by November 30; and
- a results report and the board's fiscal year-end audited financial statements and management letter from the external auditor—by November 30.

These requirements have an impact on the timing of the budget cycle, as does the process used by school jurisdictions in the preparation of their budgets. Participants felt that the three-year education plan is the driving force in determining priorities for the system. Once the priorities are established, the school board then approves a fiscal plan to meet them.

Key Priority Areas

The Task Force reviewed three key priority areas to identify gaps and opportunities to develop and implement processes for improvement:

- budget systems and processes,
- financial monitoring, and
- capacity building for school board trustees and superintendents.

Priority Area 1: Budget Systems and Processes

This review supported the parliamentary assistant's responsibility to

assess Ministry and government policy as it relates to the administration of public funds, and develop an accountability framework for the financial management of school districts that respects the autonomy of elected school boards and the critical role they have in the governance of the education system.

The Minister of Education has authority, under the *School Act*, to prescribe reporting and accountability systems for school boards and can inquire into the financial condition of school boards. The *Annual Report of the Auditor General of Alberta 2005–2006* concluded that Alberta Education should improve the school board budget process and should work with key stakeholder associations to set standards for financial practices.

Prior to developing the budget, each school board sets the strategic direction and priorities for its jurisdiction, which typically align with the priorities of the Government of Alberta and Alberta Education. While a school jurisdiction's superintendent and senior administration are responsible for the preparation and monitoring of each site budget, the ultimate responsibility for the jurisdiction's overall budget rests with the school board. The superintendent and senior administration are responsible for reviewing and consolidating all site budgets into the final document that is presented and recommended to the school board for their review, analysis, and approval. The budget package provided to the school board trustees must be comprehensive, complete, and based on the best information available at the time. It should set out all the budget assumptions, the risk assessments, and the analysis supporting the overall budget. Also, school board trustees must be given sufficient information to discern and understand how the budget plan fits together to achieve the strategic direction and goals of the jurisdiction.

1.1 Gap Analysis – Findings on the Timeliness of Information

The auditor general made the following recommendation:

> The Ministry should be providing school boards as early as possible with the information needed to prepare their budgets (e.g., estimates of operating grant increases and new grant funding, and comments on financial condition evident from their latest audited financial statements).

Budgets, by definition, must be prepared in advance, taking into consideration the impact and implications of many variables and the need to mitigate arising issues. Preparing a school board budget always requires school jurisdiction management to make assumptions. One of the best practices noted by the Task Force is the determination of broad budget assumptions. Making realistic budget assumptions requires knowing the economic environment and cost drivers of the school jurisdiction, and having the best possible information available as soon as possible to help mitigate financial risks. Budgets are based upon a multitude of facts and assumptions.

Alberta Education is the major source of revenue for school jurisdictions. The level of revenue is a vital factor in the budget preparation process. However, as the government fiscal year and the jurisdiction school year do not coincide, the necessary budget information that school jurisdictions require from Alberta Education is not always available when they are preparing their budgets. Details of Alberta Education's budget, which determines grant rates and funding for specific initiatives, are contained in the provincial budget document that requires legislative approval before it can be officially released.

Any delay in the release of the provincial budget adds more complexity to the development of the school board budget. This situation has been more evident in the last few years as not only grant levels, but also new funding announcements, have been made later in the year and well after the school budget due date. The ASBOA Financial Monitoring and Accountability Ad Hoc Committee recommended that jurisdictions receive information that is as complete as possible by mid-February to complete their budgets. Although the Task Force agreed that Alberta Education should do everything within its power to provide timely budget information, it recognized that the availability of the information is not solely in the hands of Alberta Education.

Pending the official announcement of the provincial budget, jurisdictions must use alternative information sources from Alberta Education in estimating the revenue component of their budgets. As the *Annual Report of the Auditor General of Alberta 2005–2006* suggested, school jurisdictions could reference the Alberta Education business plan for the previous year to help determine more realistic estimates.

1.2 Gap Analysis – Findings on Realistic Budget Assumptions

The auditor general made the following recommendation:

> The Ministry should require school boards to use realistic assumptions for planned activities and their costs and to disclose key budget assumptions to their trustees and the Ministry.

Similarly, the ASBOA Financial Monitoring and Accountability Ad Hoc Committee recommended that school administrators use only realistic assumptions in developing their budgets. The committee recommended that the assumptions take into consideration the economic environment of the school jurisdiction, and that all assumptions be clearly disclosed to the trustees to ensure that they are aware of all key budget issues. The committee included a requirement for a signed declaration by the board chair that states: "The board has reviewed and approved the budget and underlying assumptions used in development of the budget."

The audit findings from the selected school boards indicated that some of the budgets submitted to Alberta Education were not completed with all of—or with the best—information available. Although the budget development process may differ from jurisdiction to jurisdiction depending upon the governance and decision-making models used, the resulting budget, if prepared with anything less than the best information available at the time, will not truly reflect the fiscal plan for the board and becomes worthless as a management tool.

Budgets are prepared based on broad budget assumptions. The assumptions include, but are not restricted to, enrolment estimates, grant estimates, staffing requirements, and related costs. The assumptions used must be current and realistic. Student enrolment estimates are a major key assumption in the budget process. During the Task Force review, it became apparent that many jurisdictions are challenged in determining student enrolment assumptions. To assist school jurisdictions with their enrolment projections, Alberta Education developed a student enrolment forecasting model, in conjunction with the University of Alberta. This tool is a valuable asset for school board management in developing budgets based on the best possible enrolment projections.

The budget process consists of a number of steps identified as necessary to the development of the school jurisdiction's fiscal plan. Also, the budget process is designed to achieve the stated goals and objectives of the school board. Budget processes vary among school jurisdictions depending upon the governance and decision-making models and policy frameworks adopted by the board. Depending on the governance model, the level of direct involvement by school board trustees also varies. For example, some school jurisdictions actively involve school board trustees in the budget process while others limit trustee involvement simply to policy development and budget approval. The level of trustee involvement has an impact on the development of the budget

components, priority directions, and trustees' level of understanding of the final budget to be approved.

The final budget presented by the superintendent and senior administration to the school board should contain a complete description and explanation of budget highlights, budget assumptions, risk assessments, and the analysis supporting the fiscal plan. To be of value, the information presented must be comprehensive, timely, clear, and understandable. All school board trustees must be given the necessary information to have an awareness and understanding of all the essential factors that affect the budget.

The auditor general's findings might suggest that some jurisdictions' budgeting processes are not as effective as they could be in producing a good fiscal plan for school board operations. Owing to the sensitivity of some of the information used in budget preparation, this information is not always specifically disclosed in the initial document submitted to Alberta Education. In some cases, as reported in the auditor general's findings, other relevant costs were not given due consideration in the preparation of the budget.

Best practices dictate that in order to help school board trustees fully understand a budget prior to approving it, the superintendent and senior administration should complete a budget summary document with all the necessary supporting documents. In their budget presentation, the superintendent and senior administration should provide school board trustees with the supporting materials, budget highlights, budget assumptions, and financial and business risks.

As school boards are ultimately responsible for their jurisdictions' budgets, it is essential that they fully understand the underlying assumptions used by school board management. Trustees need to know what type of questions to ask management in order to assess whether the assumptions are realistic. For example, a critical question that trustees should ask is "On what enrolment assumptions is this budget based?" Trustees should also know what type of follow-up questions to ask in order to assess the validity of the answer, such as "Is that assumption consistent with the Alberta Education enrolment projection model and, if not, why?"

The budget report form that each jurisdiction submits to Alberta Education is presented in a prescribed standardized format for Alberta Education reporting purposes. It summarizes the information included in a jurisdiction's internal budget documents. Entitled *Budget Report for the Year Ending August 31, XXXX*, the document is submitted in accordance with the *School Act*, Sections 147(2)*(b)* and 276. This document prescribed by Alberta Education is recognized as the approved budget for the school jurisdiction. It is also understood to represent the fiscal plan of the school board.

The *Annual Report of the Auditor General of Alberta 2005–2006* commented that the budget guidelines provided to school boards for completing the budget report form do not specify that all costs must be included. Although the Alberta Education form does not require the same level of detail that is included in the internal budget documents

prepared by the jurisdictions, Alberta Education expects the submitted form to accurately represent the internal budget documents and the approved budget of the jurisdiction.

1.3 Gap Analysis – Findings on Budget Updates

The auditor general recommended that Alberta Education improve the school board budget process as follows:

> Establish a date for each school board to give Alberta Education a trustee-approved revised budget based on actual enrolment and prior year actual results.

School board budgets are prepared and submitted to Alberta Education by May 31 of each year, as outlined in the *School Act*. This date is well before student enrolments are finalized on September 30. Student enrolment is the primary driver for funding to school jurisdictions. Significant changes in the number of students from the original estimate to the final count necessitate a revision to the budget based on more accurate data. Alberta Education recognizes that changes can be significant and requires school jurisdictions to submit a budget update by November 30 of each year. The budget update is designed to reflect the changes that have been made as a result of the finalized student count and any other key budget assumptions of a significant nature that have been adjusted since the initial budget was prepared.

The audit by the auditor general indicated that changes based upon student counts and other key budget assumptions are not always reflected in the budget update. It would appear that in some cases the budget update serves only as a compliance item for Alberta Education. The auditor general found that, in the majority of cases, when the budget update differed from the original budget in order to reflect more accurate data, management did not deem the change to be significant enough to warrant approval by the board of trustees.

The submission of a budget update requires a review of the jurisdiction's fiscal plan, as approved by the school board. School board trustees, the superintendent, and senior administration, in reviewing the impact of the new information, may find that the changes are not significant enough to warrant an official revision of the fiscal plan.

The ASBOA Financial Monitoring and Accountability Ad Hoc Committee recommended maintaining the requirement for a budget update to be submitted by November 30. The committee also proposed adding to the budget update a declaration, signed by the secretary-treasurer, that states: "This information was formally received by the board of trustees at the meeting held on [date]." However, the committee did not require that the budget update be formally approved by the board (*Financial Monitoring and Accountability Ad Hoc Committee – Part 1 Budget Process, Interim Reporting and Financial Monitoring*, p. 4).

The Ad Hoc Committee recognized that while the summarized financial information in the budget update may be adequate for Alberta Education needs, it may not be adequate for jurisdiction or trustee needs.

Priority Area 2: Financial Monitoring

This review supported the parliamentary assistant initiative to

review the recommendations of the auditor general and other financial management processes to identify improvements in the financial monitoring of school boards.

The Task Force reviewed

- How Alberta Education monitors the financial health of school jurisdictions and
- How school board trustees, superintendents, and senior administration should monitor the financial health of their respective jurisdictions.

Discussions included the various aspects of financial monitoring, such as

- guidelines that are used to monitor financial health;
- the need for interim reporting;
- the financial literacy of trustees;
- the role of Alberta Education, school board trustees, and superintendents in the financial monitoring process;
- accountability for financial performance; and
- risk management assessment.

2.1 Gap Analysis – Findings on Alberta Education Financial Monitoring Practices

The auditor general recommended that Alberta Education improve the school board budget process as follows:

> Reassess when and how the Ministry should take action to prevent a school board from incurring an accumulated operating deficit.

Alberta Education and school jurisdictions operate under a shared governance model. School boards have maximum flexibility in resource allocation and are publicly accountable for how those resources are allocated and managed. Under this model, government does not control whether or not a school jurisdiction incurs an accumulated operating deficit. However, through monitoring practices, government can identify situations in which a board may be incurring an accumulated operating deficit.

Currently, school boards that report an accumulated operating deficit must present a deficit elimination plan for ministerial approval that outlines how the board will eliminate the deficit over a three- to five-year period.

Alberta Education requires that school jurisdiction budgets be based on reasonable assumptions in order to assess their financial health. Financial health is a broad and complex concept. It encompasses short- and long-term implications that describe a jurisdiction's health in the context of the overall economic and financial environment in which it operates. As a result, school board trustees require detailed information to assist them in understanding and evaluating the jurisdiction's financial position and operating policies in the short and long term.

Alberta Education noted, and the auditor general confirmed, that the information contained in the budget report and the budget update in some cases lacked substance. The monitoring system used by Alberta Education concentrates on the data reported to Alberta Education in the following prescribed forms: the budget report, the budget update, and the audited financial statements. This data is used to monitor the financial health and the historical trends of the school jurisdiction on an annual basis.

Alberta Education's monitoring process includes the development of a financial reporting profile for each school jurisdiction. (See Appendix 4.) This profile includes information covering the most recent five years, and uses information from the following sources to help assess school jurisdiction financial health: annual operations, accumulated operating surplus and capital reserves, liquidity, and capital assets. Comparisons for annual operations and ratio calculations are provided to all jurisdictions. The material provides a good introductory understanding of financial health and a source of information for trend analysis. Participants in the various training sessions found the explanation of the various calculations and their meaning in the financial environment helpful.

The Ad Hoc Committee suggested that Alberta Education provide explicit guidance regarding the minimum amount of accumulated operating surplus that a jurisdiction should maintain to mitigate financial and business risk. The Task Force examined whether Alberta Education should recommend a range of percentages, rather than a single fixed percentage, of accumulated operating surplus to be set aside. Given the differing sizes of jurisdictions and various other environmental factors such as enrolment and environmental trends, suggesting a range may be more realistic.

The Association of School Business Officials of Alberta (ASBOA), in cooperation with Alberta Education, must do further work on determining the indicators that jurisdictions and Alberta Education should use in assessing jurisdictions' financial health. Subsequent analysis suggested that factors to consider include capital reserves, unsupported capital borrowings, and other indicators, rather than a single measure of financial health. Further, the Task Force suggested that an audit committee should oversee jurisdictions' use of financial health indicators.

2.2 Gap Analysis – Findings on Interim Reporting

Alberta Education expects school board trustees to hold management accountable for achieving goals set through the board's planning process, while staying within budget. This involves monitoring actual spending against the budget, using interim data to project results for the fiscal year, taking action to stay within budget, and evaluating any effects on attainment of goals (*Annual Report of the Auditor General of Alberta 2005–2006*, p. 68).

The superintendent and senior administration of each jurisdiction develop budgets based upon the goals and objectives established by the school board in the three-year education plan. Budgets, if used effectively, have an important role in reaching those goals. Best practices dictate that an effective budgetary process should include analysis of what happens when a budget plan is put into practice and what the organization does or does not do to correct for any variations from the plan.

Best practices for budgetary control include

- school board trustees' overseeing and monitoring policy and operational performance against the budget plan,
- clearly defining superintendent and senior administration responsibilities,
- taking responsibility for adhering to the budget plan,
- implementing a plan of action for individual budget sites,
- taking corrective action if results differ significantly from the budget plan,
- permitting significant departures from the budget only after the review and approval by the board, and
- investigating unexplained variances from the budget.

These best practices require monitoring, interim data collection and reporting, and evaluation of progress against the original budget. To fulfill their financial oversight role, school board trustees need meaningful information on a regular and timely basis in order to assess how things are progressing and whether changes will be required to achieve the goals of the fiscal plan.

The auditor general stated that school board interim reporting to trustees should include, at a minimum, quarterly reporting (including year-end) of actual-to-date results versus budgeted expenses and revenues, and a forecast of the remaining annual operating and accumulated operating financial results to the end of the fiscal year. Trustees should be able to rely on forecasts to assess whether the board has the resources to achieve all goals and whether corrective action needs to be taken. Such actions may include adjustments to actual spending in the current year or to the next year's budget. Trustees need reporting of interim actual results to assess the reasonableness of forecasts. The auditor general also stated that reporting to trustees should include an explanation by management of variances in actual results and forecasted results compared to the budget (*Annual Report of the Auditor General of Alberta 2005–2006*, p. 69).

In 2008, the Alberta School Boards Association (ASBA) developed training materials to enhance trustee awareness regarding budget control. The Strong Budgetary Controls topic of the Association's Fiscal Accountability for Alberta's School Board training program included a basic discussion of the components and the importance of the budgetary control system. The topic helped trustees understand the budget cycle, assumptions, and risks, and it addressed the roles and responsibilities of school board trustees and management in the budget cycle. The Interim Accountability Reporting topic provided an introduction to financial monitoring and how it contributes to the fulfillment of financial oversight responsibilities.

In 2007, the ASBOA Ad Hoc Committee recommended that school boards develop policy on interim reporting that provides school board trustees and management with meaningful information to assist them in fulfilling their oversight duties.

The Ad Hoc Committee recommended a minimum standard for interim reporting that includes

- quarterly interim financial reporting;
- a statement of operations including
    - actual year-to-date information, including significant accruals,
    - a forecast of yearly operating results to the end of the school year,
    - a budget for the school year that represents revised budget information as of September 30 of each year, and
    - variances of forecasted revenues and expenditures to the budget as well as an explanation of significant variances; and
- a summary of forecasted changes in operating and capital transactions (changes in accumulated operating surplus, capital reserves and investment in capital assets, and expended and unexpended capital allocations) (*Financial Monitoring and Accountability Ad Hoc Committee – Part 1 Budget Process, Interim Reporting and Financial Monitoring*, p. 5).

The Ad Hoc Committee emphasized that this level of reporting would be a minimum standard that could be enhanced for boards that require more information.

2.3 Gap Analysis – Findings on Financial Control Systems

A good system of internal controls significantly affects the financial oversight ability of a board. While the superintendent and senior administration are responsible for establishing an effective internal control system, the school board, ideally through the work of an audit committee and an internal audit function, is responsible for ensuring that the internal control system operates as intended.

An internal control system is effective when the school board, superintendent, and senior administration have reasonable assurance that

- they understand the effectiveness and efficiency of operations;
- internal and external reporting is reliable; and
- the organization is complying with laws, regulations, and internal policies.

Audit Committees

An audit committee is responsible for ensuring that there is an effective system of internal control, thereby assisting school board trustees in fulfilling their financial accountability and oversight responsibilities.

The function of the audit committee is to support the school board by monitoring and reviewing the risk, internal control, and governance processes that have been established in board policy. The audit committee adds value by helping the board ensure that good judgment has been exercised in the financial decision-making process. As the backbone of the fiscal oversight process, the audit committee is considered to have critical governance responsibilities related not only to public financial reporting, internal controls, and the management of financial risks, but also to the oversight of the board's values and ethics.

In the area of financial reporting, the audit committee

- reviews annual interim financial statements with the superintendent and senior administration;
- works closely with management to assess the accuracy of the financial statements and annual reports;
- reviews major accounting policy changes and issues, and advises the school board on any implications of these changes; and
- reports any key issues identified in the review of the financial and annual reports to the school board prior to their approval of the documents.

Also, the audit committee has an important role relative to the external auditor. The audit committee consults with the school board, superintendent, and senior administration on the following: the hiring and retaining of an external auditor; the scope of the audit plan and reports, including the areas of audit risk; the review of the post-audit management letter and management's responses to findings and recommendations; and any other matters that the external auditor brings to the attention of the committee.

In recommending best practices (Appendix 6), the Task Force suggested that school boards should have an audit committee to assist them in their financial accountability, oversight, and monitoring responsibilities.

Audit committee members

- should include school board trustees, though these members should not represent a quorum;
- should be financially literate;
- should be able to ask the right financial questions and follow up with clarifying questions;
- should understand the organization's structures, processes, and accountability policies; and
- could include external members, such as individuals with an accounting designation.

Internal Audit Process

Internal audit is a function within an organization that deploys an internal auditor or auditors who assess and report on the adequacy of the internal controls, and perform operational and systems audits to ensure that operations and systems are in accordance with management policies. Findings are reported directly to the audit committee, which then reports to the board of trustees.

In its recommended best practices (Appendix 6), the Task Force suggests that school jurisdictions should have an internal audit function, where appropriate, that is responsible for examining

- business strategies;
- budgeting and accounting systems;
- internal control and operational systems;
- compliance with legislation, policies, and procedures;
- economical and efficient use of resources; and
- the effectiveness of operations.

Priority Area 3: Capacity Building for School Board Trustees and Superintendents

This review supported the parliamentary assistant mandate to

support the development of financial and administrative policy requirements to reinforce the decision-making process for elected school trustees and improve the evaluation of education initiatives and strategies.

Individual school board trustees, as elected representatives, have a personal responsibility to obtain any financial training required to give them the financial knowledge and competencies they need to fulfill their oversight role. Expectations for elected officials continue to increase, and the availability of financial literacy education and training, including peer support opportunities, are lacking in the education sector.

The Ad Hoc Committee of the Association of School Business Officials of Alberta (ASBOA) identified a gap in available training and recommended that school jurisdictions ensure that trustees receive training to understand budget and financial processes.

The Task Force discussed the training needs for school board trustees, superintendents, and senior administration. The discussions encompassed

- the resources and tools required at each level,
- the financial knowledge requirements,
- the stakeholder organizations responsible for providing training,
- the current available resources, and
- the adaptability of current resources to address unmet needs.

In addition, the Task Force identified a number of areas where school board trustees and superintendents could benefit from further capacity building, including the following:

- governance—understanding roles and responsibilities of key stakeholders, and how provincial legislation and board policies impact jurisdiction operations;
- financial literacy—understanding the education funding system, risk assessment, financial terms and language, components of financial statements and how they relate to one other, and what questions to ask superintendents and senior administration in order to obtain relevant and useful information; and
- financial monitoring—understanding how to verify information received from superintendents and senior administration, the internal control process, and how

audit committees and internal auditors can benefit the operational efficiency of the jurisdiction.

Task Force members agreed that the most immediate need was building financial literacy.

3.1 Gap Analysis – Findings on Existing Training and Resources

The auditor general recommended that Alberta Education assist in improving the school board trustees' knowledge of financial monitoring as follows:

> Work with key stakeholder associations to provide information to trustees about
>
> - the characteristics of a strong budgetary control system and
> - best practices for fulfilling financial monitoring responsibilities.

The auditor general commented that Alberta Education had not provided guidance to trustees with respect to best practices for fulfilling financial monitoring responsibilities and the characteristics of a strong budgetary control system (*Annual Report of the Auditor General of Alberta 2005–2006*, p.70).

The Task Force reviewed existing resources to assess whether opportunity existed to maximize efficiencies and minimize costs.

Financial Statement Readability Tool Kit

The *Financial Statement Readability Tool Kit* was developed in 2004 by ASBOA, in partnership with Alberta Education and the Office of the Auditor General. The purpose of the tool kit is to provide school jurisdiction financial statement users with specific resources to assist them in understanding and interpreting financial statements and the information contained within them.

The tool kit contains

- general information on audited financial statements and audit findings;
- questions that could be asked of the external auditor and/or management to elicit useful information and enhance understanding of the financial environment;
- a reader's guide to the audited financial statements that focuses on specific terminology and elements of the statements;
- information on preparing a management's discussion and analysis document and how it relates to the financial health of the entity; and
- an overview of audit committees, a sample satisfaction questionnaire to be completed by audit committee members, and an example of questions that audit committee members could ask of management.

School Board Financial Health Project

The School Board Financial Health Project, jointly sponsored by the Alberta School Boards Association (ASBA) and Alberta Education, was initiated in response to the auditor general's 2004–2005 findings. The project's goal was to assist school board trustees in understanding their role in financial oversight and monitoring of public funds.

The project team developed materials for trustees that addressed the characteristics of strong budgetary controls and best practices in the area of financial monitoring. Sessions have been presented to approximately 400 trustees, senior administrators, and staff throughout the province.

Topics include

- governance,
- strong budgetary controls,
- interim accountability reporting,
- board audit committees, and
- indicators of financial health.

The Task Force reviewed the materials and recognized the value of the program as an introductory course that provides a high-level overview suitable for new school board trustees. The Task Force envisioned that the program could be expanded as part of a continuing education program for school board trustees and superintendents. In response, the ASBA project team has indicated that it intends to develop an advanced level of training. The project team is exploring various delivery methods for the program. ASBOA has also offered to collaborate with Alberta Education in partnership with the ASBA to assist with the development and delivery of the school board trustee development program.

Elected Official Education Program

The Alberta Urban Municipalities Association and the Alberta Association of Municipal Districts and Counties recognized the need for an education program for elected officials. The Elected Official Education Program was developed and implemented as a result. The program focuses on core competencies identified by elected officials as being essential to their role.

The program offered its first course in January 2008, and, as of March 2009, more than 400 elected officials have attended the 13 offered courses.

This formalized program currently focuses on foundational training for all elected officials serving at the municipal government level. Although the program is still in its infancy, the Task Force recognized its strength, and identified an opportunity to partner with the Alberta Urban Municipalities Association and the Alberta Association of Municipal Districts and Counties to develop and implement an advanced training program for school board trustees. As the current program focuses on municipal elected officials, the

program would need to be further customized to include a focus relevant to school board trustees.

REPORTING ENHANCEMENTS

This section details process improvements that were made as a result of the Task Force work and that have already been implemented.

Enhancing Administrative and Reporting Efficiencies

During the Task Force discussions, it became apparent that some changes to the reporting process could be implemented immediately to maximize administrative and reporting efficiencies for school jurisdictions. The following enhancements to the audited financial statement template and notes have since been implemented:

- Improvements to the note disclosure references on the Statement of Financial Position and Statement of Revenues and Expenses.
- The addition of a Capital Assets Continuity Schedule to enhance disclosure.
- Deletion of the obsolete line Infrastructure & Transportation Schedule/Modular Capital Projects as school board capital projects are no longer funded by Alberta Infrastructure and Transportation.
- Addition of a Construction in Progress account to track capitalized expenditures for unfinished school buildings. This will help monitor progress of the schools and facilitate government's line-by-line consolidation.
- New tables for Cash and Temporary Investments and Long-Term Investments in the notes to better disclose the type and nature of school board investments, helping to ensure that boards do not contravene the *School Act*, the *Trustee Act*, or the *Investment Regulation*.
- Two new accounts in the Statement of Revenues and Expenses, for Other Revenues and Other Expenses. Among other things, these accounts will include realized and unrealized gains and losses on investments as required under the new Financial Instruments rules. The Other Expenses account can also be used for bad debts.
- A new account for Computer Hardware and Software to align with Alberta Education and Department accounts.
- A breakdown of operating and capital reserves into five different categories to clarify how reserves are allocated. The new categories include

    - school-based,
    - infrastructure,
    - board and system administration,
    - transportation, and
    - external services.

- Clarifications to the Statement of Capital Allocations:
    - Capital allocations for the current year include year-end receivables from the donor.
    - Expended capital allocations for the current year include year-end payables and accruals related to construction or other capital work in progress.
    - Failure to include the two items above could result in significant errors in the audited financial statements.
- A revised Schedule A including additional revenue categories to make it easier to prepare the Statement of Revenues and Expenses and to align the statement and schedule more effectively. New categories include
    - other Alberta school authorities,
    - out-of-province authorities,
    - other sales and services,
    - investment income,
    - gifts and donations, and
    - rentals of facilities.
- A reinstated schedule to calculate Board and System Administration expenses to monitor spending in this area.

Other Areas for Consideration

The Task Force also discussed other areas where changes to the current process could provide further enhancements, including

- **The Statement of Cash Flow** – There are currently two formats available for the Statement of Cash Flow: direct and indirect. While the indirect method is most commonly used and is simple to construct, it is more difficult to understand. Including the direct method may be more valuable for trustees and other financial statement readers.
- **Budget preparation** – The Task Force considered budgeting approaches that include adjusting the previous year's budget based on current circumstances as possible alternatives to the traditional budget model. The alternatives mentioned included zero-based budgeting, activity-based budgeting and the balanced scorecard. It may be worth reviewing these methodologies to identify possible improvements to the current processes for budget preparation.

ADVICE TO THE MINISTER

Priority Area 1: Budget Systems and Processes

TIMELINESS OF INFORMATION

Alberta Education should continue to strive to provide school jurisdictions with information on grant rates and observations on audited financial statements as early as possible to assist in the preparation of school budgets.

REALISTIC BUDGET ASSUMPTIONS

School board trustees, superintendents, and senior administration should ensure that the budget report form submitted to Alberta Education accurately reflects the fiscal plan of the jurisdiction, is based on realistic assumptions, uses the best information available, and takes into account the economic environment of the school jurisdiction.

STANDARDS AND BEST PRACTICES FOR BUDGET PREPARATION

The following standards for budget assumptions should be adopted by Alberta Education and communicated to school board trustees, superintendents, and senior administration. Superintendents and senior administration should understand that that all plans, assumptions, and risks must be fully disclosed and discussed with the school board before they are asked to approve the budget. These plans, assumptions, and related risks should

- be disclosed in the budget documents,
- take into account the economic environment of the jurisdiction,
- focus on planned changes from the previous school year, and
- be realistic and consistent with the jurisdiction's three-year education plan.

As a minimum, disclosures should include

- key budget assumptions, such as student enrolments, grant rate increases, salary increases, and inflation rates;
- financial and business risks, such as increases in interest rates and increases in fuel prices; and
- specific strategies explaining how the budget supports the three-year education plan.

To assist school board trustees, the budget report template was updated to provide a list of assumptions that should be disclosed, at a minimum, to board trustees.

In addition to being financially literate, school board trustees should receive training on the use of financial investigative questioning techniques, including the types of clarifying questions that should be asked. Such training will assist school board trustees to

determine whether the budgets they approve are based on accurate, realistic, and timely information and assumptions.

Budget Updates

At a minimum, the budget update materials provided to school board trustees for review should include a comparison to the original budget in the following areas:

- revenues,
- expenses,
- accumulated operating surplus or deficit,
- full-time equivalents (FTEs) for certificated staff, and
- eligible funded students.

The budget update should also include an explanation of significant variances (i.e., variances over 5%) in these areas.

For example, changes to certificated staff levels must be identified as being due to enrolment changes, the small class size initiative, or other factors.

The budget update should continue to be required of jurisdictions on or before November 30 of each year. The Task Force agreed that it is not always necessary for the board to formally approve the budget update. However, under best practices, the budget update should be formally received by the board as indicated on the budget update form, and the superintendent and senior administration should review the changes with the board so that they are aware of the current situation and the impact of the changes on the fiscal plan.

Priority Area 2: Financial Monitoring

In keeping with best practices,

- Alberta Education should continue to review the budgets and budget updates submitted by jurisdictions and investigate any concerns about the plans, assumptions, risks, and strategies that might place a jurisdiction at risk of an unplanned deficit. The new standards for financial monitoring information provided to school board trustees will enhance this review process.
- Superintendents and senior administration should consider introducing quarterly interim reports submitted to school board trustees for review on a timely basis. Each interim report should include a projection to the end of the school year and an explanation of significant variances between the budget and the projected totals to the end of the school year.
- Alberta Education and the Association of School Business Officials of Alberta (ASBOA) should build on the interim report template (Appendix 5), which was included in the appendix to the Financial Monitoring and Accountability Ad Hoc Committee report, to produce a standardized template that may be used by jurisdictions in the province.

- Alberta Education should continue to review the audited financial statements for consistency of presentation and to identify boards with an accumulated operating deficit or at risk of incurring one in the near future. School jurisdictions with an actual accumulated operating deficit should continue to be required to submit an accumulated operating deficit elimination plan for approval by the Minister.

Alberta Education, in collaboration with ASBOA, should develop a financial health indicator to help school jurisdictions appropriately manage unforeseen expenses. The indicator should suggest the amount of accumulated operating surplus, as a percentage of total operating expenses, that a jurisdiction should maintain. The indicator should recommend a possible range of percentages, rather than a single fixed percentage (e.g., a surplus equivalent to one to four per cent of total operating expenses). The current informal guideline of 2.5 per cent is too restrictive and does not take into account the varying environments in which boards operate. School jurisdictions reporting percentages outside the indicated range should be evaluated in order to identify trends and to assess whether a jurisdiction is in danger of incurring an accumulated operating deficit.

Interim Reporting

Alberta Education, in collaboration with ASBOA, should develop a standardized interim reporting process. Each jurisdiction's superintendent and senior administration will use this process to report to the board at least three times per year on year-to-date progress compared to the budget.

Alberta Education and ASBOA should build on the interim report template (Appendix 5) included in the appendix to the Financial Monitoring and Accountability Ad Hoc Committee report to produce a standardized template that may be used by school jurisdictions in the province.

The interim report should include a projection to the end of the school year and an explanation of significant variances between the budget and the projected totals to the end of the school year. Specifically, the interim report should include all significant revenues and expenses, and changes to

- unexpended capital allocations,
- expended capital allocations,
- investments in capital assets,
- capital reserves, and
- accumulated operating surplus or deficit.

Interim reports (in November, February, and May) should be presented to the school board in a timely manner for review. These reports should be standardized for use in monitoring the financial health of a jurisdiction, and to assist in determining whether a jurisdiction may be at risk of incurring an accumulated operating deficit.

Audit Committee

School boards should be encouraged to establish an audit committee to assist them in their financial oversight. The audit committee should include school board trustees, but the number of trustees on the committee should not be enough to make a quorum. The audit committee should include members who are financially literate and include external financial professionals, if required.

Internal Audit

School jurisdictions should also be encouraged to have an internal audit function if their size and complexity warrants one. It may be prudent for school jurisdictions to work collaboratively and share the services of an internal auditor. For maximum effectiveness, the internal auditor should report directly to the audit committee. Further, the audit committee should report directly to the board.

Priority Area 3: Capacity Building for School Board Trustees and Superintendents

The key to empowering school board trustees and superintendents to fulfill their roles and duties is to ensure that resources and training are available, accessible, and designed to address the specific skills and competencies required for each role. The Task Force recognized and valued the work that stakeholder organizations have already done to develop some of the necessary resources and training, and identified opportunities to work collaboratively to enhance and expand existing resources. Building on the work already done would maximize efficiencies and minimize costs.

Resources

While it currently focuses on new senior administrators, the *Financial Statement Readability Tool Kit* provides key resources that could aid school board trustees in fulfilling their governance role. The Task Force review showed that many school board trustees are not aware of the tool kit. As some of the materials are outdated, ASBOA should work with Alberta Education to review and update the tool kit. This resource should be made more accessible to school board trustees and superintendents.

Training

Education stakeholders should work collaboratively to enhance current training opportunities and to develop a more comprehensive formalized trustee and superintendent training program. The training could be offered in developmental phases.

Initial Training – Understanding the Basics

The Financial Accountability for Alberta's School Boards program is a valuable high-level introductory program for newly elected trustees and superintendents. ASBOA, with input from the Alberta School Boards Association (ASBA) and the College of Alberta School Superintendents (CASS), should work with Alberta Education to review the financial literacy components of the current program to ensure that it is comprehensive, thorough,

and complete. All school board trustees and superintendents should have an opportunity to take financial literacy training. The program should be offered, at a minimum, after every election (every three years).

Comprehensive Financial Literacy

The Task Force identified the need for a more detailed and comprehensive financial literacy training program that builds upon the initial training provided. ASBOA and Alberta Education should co-lead the development of the program, with input from the ASBA and CASS.

The comprehensive training should include the following topics:

- the responsibility of the board and management with respect to financial statements;
- how financial statements are prepared and analyzed;
- balance sheets, income statements, and statements of cash flow—how they are different and why they are all important;
- the importance of notes to the financial statements;
- how budgeting complements and supports financial reporting;
- interim reporting against budget;
- variance and comparative analysis;
- best practices for a strong financial control system, including the use of audit committees and internal auditors; and
- how to ask clarifying questions of management and external auditors.

All trustees and superintendents should have an opportunity to take this training, which should be delivered by a financial expert practised in school business.

The Task Force identified a gap in training available for school board trustees who have some level of financial literacy but would like to continue their studies. School board trustees who serve on an audit committee and superintendents also require more advanced training than is currently offered.

The Task Force recognized the strength of the Elected Official Education Program and the opportunity to enhance the program to provide an advanced training program for trustees. The ASBA, Alberta Education, the Alberta Urban Municipalities Association, and the Alberta Association of Municipal Districts and Counties should work collaboratively to determine how the existing training and development program for elected representatives could be modified to meet the needs of school board trustees.

Alberta Education should provide a one-time grant to expand the existing program on the condition that the three parties work together to maximize resources. Once developed, this program could also be made available to other public bodies, such as municipally elected representatives. The Task Force recognized the value in continuing education programs for school board trustees and superintendents. For those interested in further training and development, programs are available from a multitude of sources.

Launch and Support of the New Training Program

The Task Force recognized that Alberta Education will have a key role in supporting the new training program. Stakeholders agreed that existing programs and resources should be enhanced and that the availability and development of additional training and education for school board trustees are essential. Stakeholders are willing to work together but indicated that a lack of resources is an obstacle in the development process.

To support the development and implementation of the new training program, Alberta Education could assist in the process by providing one-time grant funding to expand the existing Elected Official Education Program. The expanded program would be part of comprehensive financial literacy training to meet the advanced needs of school board trustees and superintendents. The funding would carry the condition that the ASBA, Alberta Education, the Alberta Urban Municipalities Association, and the Alberta Association of Municipal Districts and Counties work collaboratively to maximize resources.

GLOSSARY

This glossary explains key accounting terms and concepts.

accountability The requirement that entities report their results (what they spent and what they achieved), compare them to their goals, and explain any differences between their goals and results. Accountability allows Albertans to decide whether an organization is doing a good job. They can compare the costs and benefits of what the organization spends, what it tries to do (goals), and what it actually does (results).

accrual basis of accounting A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred.

accumulated operating surplus (AOS) The total of **unrestricted net assets** and **operating reserves** at a point in time, usually at the end of a fiscal quarter or school year.

adverse auditor's opinion An auditor's opinion that financial statements are not presented fairly and are not reliable.

annual operating surplus (deficit) One year's excess (or deficiency) of revenues over expenses.

assurance An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgment and testing, the inherent limitations of control, and the fact that much of the evidence available to an auditor is only persuasive, not conclusive.

attest audit, attest work Work an auditor does to express an opinion on the reliability of financial statements.

audit An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws, or to report on the adequacy of management systems, controls and practices.

audit committee A committee of the governance board established to assist the board in discharging its oversight responsibilities. The central reason for its existence is to oversee the integrity of the financial statements.

auditor A person who examines systems and financial information.

auditor's opinion An **auditor**'s written opinion on whether things audited meet the criteria that apply to them.

auditor's report An **auditor**'s written communication on the results of an **audit**.

best practices established principles or procedures gained from successful experiences that jurisdictions may use to enhance internal business processes.

board-funded capital additions Capital additions funded from the board's own resources, including **capital reserves**. (See also **supported capital additions**.)

business case An assessment of a project's financial, social, and economic impacts. A business case is a proposal that analyzes the costs, benefits, and risks associated with the proposed investment, including reasonable alternatives.

capital assets Long-term assets. These assets are amortized over the life of the asset. Annual amortization is charged as an expense and reduces the **annual operating surplus**.

capital reserves Funds (surpluses or capital proceeds) set aside for replacement of **capital assets**.

criteria Reasonable and attainable standards of performance used to assess systems.

crown The Government of Alberta.

current assets Cash and other assets that can be converted to cash within one year (e.g., accounts receivable, inventories).

current liabilities Obligations that must be discharged within one year.

deferred maintenance Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.

direct cash flow method provides information that may be useful in estimating future cash flows and that is not available under the indirect method. Under the direct method, the major classes of gross cash receipts and gross cash payments are disclosed, for example, cash receipts from capital allocations, cash receipts from government operating grants, and cash receipts from the sale of goods and services.

exception Something that does not meet the criteria it should meet.

expense The cost of a thing over a specific time.

financial monitoring An approach by which the governance board receives and reviews meaningful financial information that enables it to fulfill its financial oversight duties.

GAAP Generally Accepted Accounting Principles, which are established by the Canadian Institute of Chartered Accountants.

GAAS Generally Accepted Auditing Standards, which are followed by independent auditors.

governance A process and structure that brings together capable people and relevant information to achieve goals. Governance defines an organization's **accountability** systems and ensures the effective use of public resources.

internal audit A group of **auditors** within an organization that assesses and reports on the adequacy of the **internal controls**. The group reports its findings directly to the CEO and/or the **audit committee**. Internal auditors need an unrestricted scope to examine business strategies; budgeting and accounting systems; internal control systems; compliance with policies, procedures, and legislation; economical and efficient use of resources; and the effectiveness of operations.

internal control A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that they understand the effectiveness and efficiency of operations; that internal and external reporting is reliable; and that the organization is complying with laws, regulations, and internal policies.

management letter A letter to the management of an entity from the independent **auditor**, explaining the audit work, the audit findings, the recommendation for what the entity should improve and how it should do so, and the risks if the entity does not implement the recommendation. The entity should explain specifically to the auditor how and when it will implement the recommendation.

material, materiality Something important to decision makers.

misstatement A misrepresentation of financial information due to error, fraud, or other irregularities.

operating reserves Surpluses that have been earmarked for operating purposes.

outcomes The results an organization tries to achieve based on its goals.

performance measure Indicator of progress in achieving a goal.

performance reporting Reporting on financial and non-financial performance compared to plans.

performance target The expected result for a performance measure.

qualified auditor's opinion An **auditor**'s opinion that things audited meet the criteria that apply to them, except for one or more specific areas, which cause the qualification.

risk Anything that impairs an organization's ability to achieve its goals.

risk management Identifying and then minimizing or eliminating risk and its effects.

school board the board of trustees of a school jurisdiction (excluding Charter Schools) (collectively).

school-generated funds Fundraising, non-instructional fees, and other revenue generated at the school level and restricted to the purpose intended.

School jurisdiction for funding purposes this is an Alberta school district, school division, regional division, francophone regional authority, charter school, the Lloydminster Public School Division, or the Lloydminster Roman Catholic Separate School Division.

School board trustee a member of the board of trustees of a school jurisdiction (individually).

securitization A financial transaction that involves the pooling and repackaging of cash-flow-producing financial assets into securities that are then sold to investors.

specified auditing procedures Actions that management asks an **auditor** to perform in order to check certain qualities, such as reliability, of reported information. Specified auditing procedures are not extensive enough to allow the auditor to express an opinion on the information.

supported capital additions Capital additions funded from restricted contributions.

systems (accounting) A set of interrelated accounting control processes for revenue, spending, the preservation or use of assets, and the determination of liabilities.

systems (management) A set of interrelated management control processes designed to achieve goals economically and efficiently.

systems audit An audit and recommendations for system improvements, designed to help improve the use of public resources and ensure value for money. The audit process includes developing criteria that a system or procedure should meet, obtaining management's agreement with the criteria, gathering evidence, and matching the evidence to the criteria. If the system does not meet all criteria, the unmet criteria lead to a recommendation.

unqualified auditor's opinion An **auditor**'s opinion that things audited meet the criteria that apply to them.

unrestricted net assets Surpluses that have not been earmarked for specific purposes.

value for money The bottom line for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources used to create that value, the more economical or efficient the program. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime, or farm incomes. To help improve the use of public resources, a value-for-money audit recommends improvements to systems designed to ensure value for money.

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APPENDICES

- Appendix 1 – Minister's Letter: Parliamentary Assistant's Roles and Assignments
- Appendix 2 – Advisory Task Force Terms of Reference
- Appendix 3 – *Annual Report of the Auditor General of Alberta 2005–2006*
- Appendix 4 – Financial Reporting Profile
- Appendix 5 – Interim Report Template
- Appendix 6 – Best Practices

APPENDIX 1 – MINISTER'S LETTER: PARLIAMENTARY ASSISTANT'S ROLES AND ASSIGNMENTS

Alberta **Memorandum**

From: Dave Hancock
Minister

Our Reference:

Date: April 30, 2008

To: Janice Sarich
Parliamentary Assistant
Education

Telephone: 427-5010

Fax: 415-5018

Subject: **Parliamentary Assistant's Roles and Assignments**

It is my pleasure to welcome you to our new team. As Parliamentary Assistant (PA), you will play an important role in supporting the accomplishment of the government's five priorities and assisting me to fulfil my ministry's mandate initiatives and business plan goals.

As PA, I will ask you to undertake some general responsibilities such as leading stakeholder consultations and attending events on my behalf. I would also like you to oversee some specific initiatives as follows:

- Support the Minister in the evaluation of education infrastructure to ensure education infrastructure meets the needs of a growing economy and population.
- Enter into discussions with various stakeholders including school boards, charter and francophone schools, and municipalities to identify education infrastructure needs.
- Assess Ministry and government policy as it relates to the administration of public funds, and develop an accountability framework for the financial management of school districts that respects the autonomy of elected school boards and the critical role they play in the governance of the education system
- Review the recommendations of the Auditor General and other financial management processes to identify improvements in the financial monitoring of school boards.
- Support the development of financial and administrative policy requirements to reinforce the decision making process for elected school trustees and improve the evaluation of education initiatives and strategies.

It is important that there be close coordination and communication between us. As a result, I ask that you report to me regularly on the progress you are making on any assignments. In addition, I am required to approve and sign off on all documents in support of government decision making including Ministerial Reports, Cabinet Reports and Requests for Orders in Council.

Once again, congratulations on your appointment as PA. Your contributions will help us realize our goals and I look forward to working with you.

Original signed

Dave Hancock, Q.C.

cc: Honourable Ed Stelmach
Premier

APPENDIX 2 – ADVISORY TASK FORCE TERMS OF REFERENCE

Overview

School boards and Alberta Education work together in a shared governance system to ensure that the students of Alberta have access to one of the best education systems in the world. Along with other stakeholders, they strive to better the education system, respect the public trust, and discharge accountabilities to the public.

In response to the Minister and the parliamentary assistant's mandate, a task force will be assembled to conduct a review of the availability and use of training and tools for school board trustees and superintendents to help them exercise their oversight of the financial affairs and financial health of school boards in Alberta.

Primary sources will be the recommendations of the *Annual Report of the Auditor General of Alberta 2005–2006*, results of the Alberta School Boards Association (ASBA) School Board Financial Health Project, and publications of the Association of School Business Officials of Alberta (ASBOA), all aimed at improving school board financial oversight and monitoring.

Project Components

The Advisory Task Force on Building Financial Capacity for School Board Trustees and Superintendents (the Task Force) will focus on three key areas:

- budget systems and processes,
- financial monitoring, and
- training for school board trustees and superintendents.

Each of these areas will require a thorough review to identify issues and develop and implement processes for improvement.

Project Objectives

The Task Force will undertake the following activities.

Budget systems and processes:

- Review budget practices and processes used by school boards.
- Enhance existing budget practices and processes.

Financial monitoring:

- Review monitoring practices used by school trustees in assessing financial health.
- Review the use of financial ratios and comparative analysis in assessing financial health.

- Enhance school trustees' financial oversight in areas of financial review such as internal review and audit committees.
- Improve government's consolidation processes and its integration with school board financial reporting.
- Review and assess school board financial policies necessary to ensure the consistency of financial monitoring.
- Explore the feasibility of standardized software for use by school boards to enhance the comparability and consolidation of financial data.

Training for school board trustees and superintendents:

- Review the results of the ASBA School Board Financial Health Project.
- Compile a list of current training opportunities for school board trustees and superintendents.
- Explore opportunities for enhancing financial capacity (training through Universities, Colleges, and the private sector).

Membership

The Task Force will be made up of three members each from the ASBA, the College of Alberta School Superintendents (CASS), ASBOA, and Alberta Education.

Time Frame

The work of the Task Force will be completed by June 30, 2009.

APPENDIX 3 – *ANNUAL REPORT OF THE AUDITOR GENERAL OF ALBERTA 2005–2006*

In 2005–2006, the Ministry spent approximately $4.8 billion. The largest expenses are:

	(millions of dollars)
Operating support to school jurisdictions	3,731
Teachers' pensions	478
Provincial initiatives and other programs	291
Accredited private school support	135

The Ministry's revenue was approximately $1.4 billion in 2005–2006. The primary source of revenue is education property taxes ($1.3 billion).

For more information on the Ministry, visit its website at http://www.education.gov.ab.ca/.

Scope: what we did in our audits

1. Systems

   We examined the budgeting process at 13 school boards. We also examined the Ministry's processes for monitoring the financial condition of school boards.

2. Performance reporting

   We audited the financial statements of the Ministry, Department, and the Alberta School Foundation Fund for the year ended March 31, 2006. We completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

   We performed the following work on entities that report to the Minister:

   - We audited the financial statements of the Northland School Division No. 61 for the year ended August 31, 2005.
   - We reviewed, under section 19(4) of the *Auditor General Act*, the audited financial statements and audit findings for the 75 school jurisdictions and charter schools for the year ended August 31, 2005.

Our audit findings and recommendations

1. Systems

1.1 School board budgeting

Background

Alberta Education's strategies to provide a quality education to all students include:

- Developing curriculum and setting standards
- Evaluating the effectiveness of the education system by measuring student performance, and
- Funding school boards

In 2005 school boards received $3.3 billion in funding

School boards are required to meet their educational goals with a level of funding largely determined by the Province that is based on the number of students they teach. The funding model takes into account funding that some boards obtain directly from taxpayers so that all boards are provided with the same amount of resources on a per student basis. Alberta Education (the Ministry) primarily uses per student funding (adjusted to compensate for unique factors such as location), a limit on the percentage of administration costs, and classroom size standards to try to achieve an equitable and economic allocation of resources for all students. In 2005, the Ministry paid $3.3 billion in grants to Alberta school boards.

The Minister has authority, under the School Act, to prescribe reporting and accountability systems for school boards. The Minister can also inquire into the financial condition of school boards and make any order he considers appropriate.

The financial reporting and accountability system established by the Act and Minister requires school boards, each year, to submit to the Ministry:

- a three year education plan setting out the educational goals and strategies of the board—by May 31
- the board's next fiscal year budget—by May 31
- a revised budget summary—on October 15
- a results report and the board's fiscal year end audited financial statements and management letter—by November 30

School boards with accumulated operating deficits must eliminate them over a number of years

The Ministry has told the school boards that: "a budgeted annual operating deficit is acceptable if, and only if, sufficient accumulated operating surplus funds are available to cover the planned shortfall without impairing the long-term financial health of the school board". School boards that incur an accumulated operating deficit are required to work with the Ministry to eliminate that deficit usually over a number of years. There is an impact on the future operations of the affected boards— boards eliminate deficits by not spending a portion of the annual funding provided to them.

Audit scope and objectives

School boards need to do accurate budgeting to be able to achieve their education plan. Our audit objective was to assess if:

School boards:

- comply with the Ministry's requirements for preparing and reporting their annual budgets.
- have systems that enable them to prepare accurate budgets and forecasts and to monitor actual results so they stay within budget.

The Ministry:

- provides adequate guidance to school boards.
- has sufficient monitoring processes in place to achieve its objective of school boards operating within the resources allocated by the Ministry.

We examined budgeting processes at 13 school boards

We examined the budgeting processes at 13 school boards by providing the school boards' external auditors with procedures to complete for us. Our sample was representative of all boards in that it included different size boards, both urban and rural. However a higher percentage of boards included in our sample—15%, incurred an accumulated operating deficit in 2005 as opposed to 6% of all boards.

We also examined the Ministry's processes for monitoring the financial condition of school boards. As part of this, we assessed the Ministry's:

- guidance to school boards,
- processes to review school board budgets and financial statements, and
- processes to decide when to take action to prevent school boards from incurring an accumulated operating deficit.

Conclusion

Overall, we concluded that the Ministry needs to:

- assist boards to improve their budget process, and
- give guidance to school board trustees to help with their oversight process.

1.1.1 School board budget process

Recommendation No. 25

We recommend that Alberta Education improve the school board budget process by:

- **Providing school boards as early as possible with the information needed to prepare their budgets (e.g. estimates of operating grant increases and new grant funding, and comments on financial condition evident from their latest audited financial statements).**
- **Requiring school boards to use realistic assumptions for planned activities and their costs and to disclose key budget assumptions to their trustees and the Ministry.**
- **Establishing a date for each school board to give the Ministry a trustee-approved revised budget based on actual enrolment and prior year actual results.**
- **Re-assessing when and how the Ministry should take action to prevent a school board from incurring an accumulated operating deficit.**

Background

The government's fiscal year starts April 1 whereas the school boards' fiscal year starts September 1. This means that the provincial budget has already been passed before the school boards submit their budgets and educational plans to the Ministry.

The school boards' budget process starts in January each year, and school boards need information from the Ministry to develop their estimates of funding. For their fiscal year 2005, the Ministry gave the school boards the:

- September 1 operating grants information in April 2004 and
- three-year funding allocation amounts to implement the classroom size standards in July 2004.

School boards also make assumptions about student enrolment, teacher salary increases, required staff levels, and inflation in other costs when preparing their budgets. Both trustees and the Ministry need to know the assumptions made in budgets to be able to determine the reasonability of the budget.

The Ministry needs reasonably accurate school board budgets to assess the financial condition of boards and to determine whether the Ministry will need to provide additional funds to ensure boards will be able to operate with an accumulated operating surplus.

Criteria: the standards we used for our audit

- School board budgets should be accurate and based on forecasted student enrolment and all the costs the school boards expect to incur in running their schools.

- School board budgets should meet the Ministry's submission and deadline requirements.
- The Ministry should monitor the financial condition of school boards and take action when boards have incurred or will incur an accumulated operating deficit.

Our audit findings

Overall, criteria partly met

Overall we found that the criteria were partly met. All school boards submitted a budget and revised budget to the Ministry. The Ministry reviewed and provided comments to the boards about these documents. However, we found that school board budgets and revised budgets submitted to the Ministry are not always complete enough to allow the Ministry to be able to rely on these as reasonably accurate projections of financial condition.

School board budgets submitted to the Ministry are not always complete and accurate

Funding information needed earlier

- The original school board budgets submitted to the Ministry for the year beginning September 1, 2004 were not complete because the Ministry did not provide key funding information on the class size standards until after the budgets had been submitted. This affected both the revenue and expense projections of the boards. To plan efficiently, school boards need information about Ministry grants by February because contracts with teachers require staffing decisions in May. Each year, the Ministry's business plan shows a target estimate of the next year's funding to be provided to the boards. This information is available to boards when they begin preparing their budgets but can vary from the actual budget the Ministry will receive for school board funding. Over the last four years, the actual budget has varied from the target estimate by a range of 3% more to 3% less. The Ministry can not provide the actual budget information about operating grants and new program information until the provincial budget is passed. The Ministry could, however, provide the boards in February with an assessment of the reasonability of the target estimate provided in the previous year business plan.

Key budget assumptions should be disclosed to Trustees and the Ministry

- The original school board budgets also were not complete because boards don't always include all of the projected costs the boards expect to incur in running the schools. Two school boards in our sample did not budget for anticipated increases in teacher salaries when teacher salary negotiations were underway. One board did not budget for utility cost increases. The budget guidance document provided by the Ministry doesn't specify that all costs must be included. Nor does it require that assumptions for key cost estimates be disclosed to the Ministry and to the trustees so that the reasonability of the estimates can be assessed. For example, at one board, we found one person made all key budget assumptions and there was no independent review of the assumptions for reasonableness by the trustees.

Trustees should review and approve revised budgets to be submitted to the Ministry

- The actual enrolment numbers are not known until the end of September. Any changes in enrolment affect the amount of revenue boards receive. In addition, when the original budget is prepared, school boards are still forecasting what the actual financial results for the current year will be. For these reasons, the Ministry requires boards to submit a revised budget to the Ministry in October. When we examined the revised budgets we found that six boards forecasted the same annual results and accumulated operating surplus in the revised budget as in their original May budget. Four of these boards ended up with significantly different actual results than projected in their budget submissions. Many boards reported that they had insufficient time to complete the revised budget and that they didn't use these revised budgets to manage their operations but instead used internal budgets prepared at a later date. Only two of the boards had these revised budgets approved by the trustees.

Ministry can improve its monitoring

Earlier review of school board financial statements needed

- The Ministry requires school boards to submit their audited financial statements by November 30. The Ministry completed its detailed review of the 2004 statements in April 2005 and made comments on sufficiency of school board capital asset replacement and capital and operating reserves. If the Ministry completed this review sooner and provided its assessment comments before the end of February, then boards could make any necessary changes in their next year's budget.

Better guidance needed on the level of operating reserves

- Although the Ministry encourages school boards to maintain an accumulated operating surplus sufficient to cover at least five days of operating expenses, six of the boards in our sample did not meet this standard. The Ministry has not explained to the boards why the five-day target for accumulated operating surplus is appropriate or how to calculate an adequate level of operating surplus. An alternative approach could be to maintain an operating surplus equal to a percentage of total expenses in case some of the cost assumptions included in the budget prove to be too

low. The Ministry requires boards to provide a deficit-elimination plan if a board incurs an accumulated operating deficit. If a board plans for an accumulated operating deficit, the Ministry asks the board to identify strategies to avoid incurring the deficit. If a board has less than the five-day target for accumulated operating surplus, the Ministry contacts the secretary-treasurer to discuss the board's financial health. The Ministry does not evaluate whether it should take other action based on an assessment of the reliability of the board's budget systems.

Implications and risks if recommendation not implemented

School board budgets may be inaccurate and incomplete. As a result school boards and Alberta Education may not meet their goals.

1.1.2 Interim reporting—minimum standards and best practices

Recommendation No. 26

We recommend that Alberta Education work with key stakeholder associations to set minimum standards for the financial monitoring information provided to school board trustees.

We also recommend that Alberta Education work with the key stakeholder associations to provide information to trustees about:

- **the characteristics of a strong budgetary control system**
- **best practices for fulfilling financial monitoring responsibilities**

Background

Trustees expected to hold management accountable for meeting budgets

The Ministry expects school board trustees to hold management accountable for achieving goals set by the board's planning process, while staying within budget. This involves the trustees monitoring actual spending against the budget, using interim data to estimate results for the fiscal year, taking action to stay within budget, and evaluating any effects on attainment of goals.

The Alberta School Boards Association, the College of Alberta School Superintendents and the Association of School Business Officials of Alberta (key stakeholder associations) work with the Ministry to improve school board management.

As part of the audited financial statement package, each board chairman signs the School Jurisdiction's Management's Responsibility for Financial Reporting. One assertion is that: "The effectiveness of the control systems is supported by the selection and training of qualified personnel, an organizational structure that provides an appropriate division of responsibility and a strong budgetary system of control."

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Guidance to boards

Ministry needs to provide trustees with guidance

- This criterion was not met. Although the Ministry requires each Board Chair to assert that the board has a strong system of budgetary control, the Ministry has not provided any guidance to trustees indicating best practices for fulfilling financial monitoring responsibilities and the characteristics of a strong budgetary control system.

Implications and risks if recommendation not implemented

Without adequate interim reporting, boards may make decisions which will not result in economic, efficient and effective delivery of education.

current year or to the next year's budget. Trustees need interim actual results reporting to assess the reasonableness of forecasts.

- explanation by management to trustees of variances of actual results and forecasted results compared to the budget.

The Ministry should provide adequate guidance to the school boards about characteristics of strong budgetary control.

Our audit findings

Interim reporting

Only one school board met our criteria

- Only one school board met our criteria. The board gives trustees regular written reports with actual-to-date operating results compared to the budget, forecasted results and net asset position to the end of the year, and explanations of variances.
- At one school board, trustees received only financial information about individual schools but not the overall combined school board operating results during the year.
- For the remaining 11 boards, we found variation in the nature and timing of interim information provided to trustees. Sometimes, information was written, other times, verbal. At some boards, trustees received information only on operating results, not on transactions affecting the accumulated operating surplus or deficit. Trustees received interim information such as:
  - Year-to-date actual results compared to original or revised budget, percentage of annual budget spent, and funds remaining. This sometimes included calculation of variances, but no forecast of results to the end of the year.
  - Forecasted operating results and net asset position to the end of the year, but no information on actual-to-date results.
  - Some boards received interim reports prepared on a cash basis rather than on an accrual basis.

APPENDIX 4 – FINANCIAL REPORTING PROFILE

Jurisdiction "A"
FINANCIAL REPORTING PROFILE
2003/2004 to 2007/2008 School Years

	2003/2004 Actuals	2004/2005 Actuals	2005/2006 Actuals	2006/2007 Actuals	2007/2008 Actuals
TOTAL FTE ENROLLED (K - 12)					
ANNUAL OPERATIONS					
Total Revenues					
Total Expenses					
Excess (Deficiency) of Revenues over Expenses					
Add (Deduct) Board-funded Capital & Unsupported Debt Transactions					
Net Change to Accumulated Operating Surplus					
ACCUMULATED OPERATING SURPLUS (DEFICIT) AND CAPITAL RESERVES					
Accumulated Operating Surplus (A.O.S.)					
A.O.S. To Expenses Ratio:					
Jurisdiction "A"					
Average of All Jurisdictions					
Median of All Jurisdictions					
Average of Jurisdictions having Comparable FTE Enrolment Size					
Median of Jurisdictions having Comparable FTE Enrolment Size					
A.O.S. Per Student:					
Jurisdiction "A"					
Average of All Jurisdictions					
Average of Jurisdictions having Comparable FTE Enrolment Size					
A.O.S. - Days of Operation (Note 1):					
Jurisdiction "A"					
Average of All Jurisdictions					
Average of Jurisdictions having Comparable FTE Enrolment Size					
Capital Reserves					
Capital Reserves Per Student:					
Jurisdiction "A"					
Average of All Jurisdictions					
Average of Jurisdictions having Comparable FTE Enrolment Size					
LIQUIDITY					
Current Ratio (Note 2):					
Jurisdiction "A"					
Average of All Jurisdictions					
Average of Jurisdictions having Comparable FTE Enrolment Size					
Net Working Capital per Student (Note3):					
Jurisdiction "A"					
Average of All Jurisdictions					
Average of Jurisdictions having Comparable FTE Enrolment Size					
CAPITAL ASSETS					
Schools and Other Buildings - NBV to Historical Cost:					
Jurisdiction "A"					
Average of All Jurisdictions					
Average of Jurisdictions having Comparable FTE Enrolment Size					
Equipment & Vehicles - NBV to Historical Cost:					
Jurisdiction "A"					
Average of All Jurisdictions					
Average of Jurisdictions having Comparable FTE Enrolment Size					

Notes:

1. **A.O.S. - Days of Operation = A.O.S. / (Total Expenses / 250 Operating Days).**
2. **Current Ratio (Expressed as a value) = Current Assets / (Current Liabilities net of current portion of supported l/t debt).**
3. **Net Working Capital per Student = (Current Assets - Current Liabilities net of current portion of supported l/t debt) / Total FTE Enrolled.**

APPENDIX 5 – INTERIM REPORT TEMPLATE

Interim Reports to March 31, 2007
(1) STATEMENT OF OPERATIONS
(In dollars)

Account Descriptions (Note 1)	A Actual To March 31/07 (Note 4)	B Forecast 12 months ending August 31/07 (Note 3)	C Annual Budget 2006-2007 (Note 2)	D Variance (Note 5)	% Variance to Total Forecast Revenue
REVENUES					
Government of Alberta	$83,969,921	$143,946,000	$152,672,584	($8,726,584)	-5.6%
Federal Government and/or First Nations	$900,000	$1,029,000	$429,189	$599,811	0.4%
Instruction resource fees	$131,038	$225,000	$238,250	($13,250)	0.0%
Transportation fees	$450,000	$771,000	$702,318	$68,683	0.0%
Other sales and services	$1,015,025	$1,740,000	$1,845,500	($105,500)	-0.1%
Investment income	$295,000	$506,000	$370,000	$136,000	0.1%
Gifts and donations					0.0%
Rentals of facilities	$537,001	$921,000	$976,386	($55,386)	0.0%
Net school generated funds	$950,000	$1,629,000	$1,300,000	$329,000	0.2%
Gains on disposal of capital assets					0.0%
Amortization of capital allocations	$2,724,493	$4,671,000	$4,953,623	($282,623)	-0.2%
Total Revenues	$90,972,478	$155,440,000	$163,487,830	($8,047,830)	-5.2%
EXPENSES					
Certificated salaries	$49,389,789	$84,668,000	$89,799,617	$5,131,617	3.3%
Certificated benefits	$7,500,000	$12,857,000	$11,133,775	($1,723,225)	-1.1%
Uncertificated salaries and wages	$11,644,606	$19,962,000	$21,172,015	$1,210,015	0.8%
Uncertificated benefits	$3,750,000	$6,429,000	$5,259,424	($1,169,577)	-0.8%
Services, contracts and supplies	$15,804,660	$27,094,000	$28,735,746	$1,641,746	1.1%
Net school generated funds	$950,000	$1,629,000	$1,300,000	($329,000)	-0.2%
Capital and debt services					
Amortization of capital assets					
Supported	$2,724,493	$4,671,000	$4,953,623	$282,623	0.2%
Unsupported	$733,669	$1,258,000	$1,333,845	$75,845	0.0%
Interest on capital debt					
Supported	$435,846	$747,000	$792,630	$45,630	0.0%
Unsupported					0.0%
Other interest charges					0.0%
Losses on disposal of capital assets					0.0%
Total Expenses	$93,933,166	$159,315,000	$164,480,774	$5,165,774	3.3%
SURPLUS (DEFICIT) FOR THE PERIOD	($2,293,689)	($3,875,000)	($972,945)	($2,902,056)	-1.9%

(2) SUMMARY OF FORECASTED OPERATING AND CAPITAL TRANSACTIONS

	UNEXPENDED CAPITAL ALLOCATIONS (DCA)	EXPENDED CAPITAL ALLOCATIONS (UCA)	UNSUPPORTED INVESTMENTS IN CAPITAL ASSETS (ICA)	CAPITAL RESERVES (CR)	ACCUMULATED OPERATING SURPLUS/DEFICIT (AOS /AOD)
Balances, August 31, 2006	$19,000,000	$211,000,000	$28,000,000	$1,000,000	$6,000,000
Operating Transactions:					
Surplus (Deficit) for the Period					($3,875,000)
Supported Capital Transactions:					
Restricted Capital Allocations Received	$5,000,000				
Restricted Capital Allocations Expended (Note 6)	($10,000,000)	$10,000,000			
Repayment of Supported Debt		$2,500,000			
Amortization of Supported Capital		($4,671,000)			
Unsupported Capital Transactions:					
Board-Funded Capital Additions (Note 7)			$1,500,000		($1,500,000)
Repayment of Unsupported Debt			$500,000		($500,000)
Amortization of Unsupported Capital			($1,258,000)		$1,258,000
Other (Including Transfers)					
Projected Balances, August 31, 2007	$14,000,000	$218,829,000	$28,742,000	$1,000,000	$1,383,000

APPENDIX 6 – BEST PRACTICES

The Task Force identified the following best practices to improve efficiency and effectiveness. School jurisdictions can measure their own operations against these practices.

Budget Systems and Processes

BUDGET ASSUMPTIONS

All plans, assumptions, and risks should be fully discussed with the board of trustees before they are asked to approve budget documents. These plans, assumptions, and related risks should

- be disclosed in the budget documents,
- take into account the economic environment of the jurisdiction,
- focus on planned changes from the previous school year, and
- be realistic and consistent with the jurisdiction's three-year education plan.

At a minimum, these disclosures should include

- key budget assumptions, such as student enrolments, grant rate increases, salary increases, and inflation rates;
- financial and business risks, such as increases in interest rates and increases in fuel prices; and
- specific strategies explaining how the budget supports the three-year education plan.

In its presentation, management should walk trustees through the supporting materials, budget highlights, budget assumptions, and financial and business risks so that all trustees understand the complete picture before they are asked to approve the budget.

BUDGET UPDATES

Budget update materials should be prepared before November 30 of each year and provided to school board trustees in a timely manner. The update should include a comparison to the original budget in the following areas:

- revenues,
- expenses,
- accumulated operating surplus or deficit,
- full-time equivalents (FTEs) for certificated staff, and
- eligible funded students.

The update should also include an explanation of significant variances (i.e., variances over 5%).

The budget update should be formally received by the board (as indicated on the budget update form), and management should review the changes with trustees to make sure they are aware of the current situation and the impact of the changes on the fiscal plan.

Financial Monitoring

Budgetary Controls

An effective budgetary process includes analysis of what happens when a plan is put into practice and what the organization does or does not do to correct for any variations from the plan.

Budgetary controls should include

- clearly defining managerial responsibilities,
- implementing a plan of action for individual budget sites,
- taking responsibility for adhering to the budget,
- monitoring performance against the budget,
- taking corrective action if results differ significantly from the budget,
- permitting significant departures from the budget only after approval by the board, and
- investigating unexplained variances from the budget.

Financial Health

School boards should take precautions to avoid an accumulated operating deficit. In the event that a school jurisdiction accumulates an operating deficit, a deficit elimination plan must be submitted for ministerial approval that outlines how the board will eliminate the deficit over a three- to five-year period.

If a board's accumulated operating surplus falls outside an acceptable range, the board should have a plan in place to eliminate the accumulated operating deficit or to expend excess surpluses.

Interim Reporting

Management should produce interim financial reports (in November, February, and May) that include a projection to the end of the school year and an explanation of significant variances between the budget and the projected totals to the end of the school year. Specifically, the interim report should include all significant revenues and expenses, and changes to

- unexpended capital allocations,
- expended capital allocations,
- investments in capital assets,
- capital reserves, and
- accumulated operating surplus/deficit.

These reports should be presented in a timely manner to board trustees for review.

Audit Committee

School boards should appoint an audit committee, responsible for monitoring and reviewing the risk, control, and governance processes that have been established in board policies, to assist them in their financial oversight responsibilities.

Audit committee members

- should include members of the board, though these members should not represent a quorum;
- should understand the organization's environment and accountability structure;
- should be financially literate;
- could include external members, such as individuals with an accounting designation; and
- should have the ability to ask the right financial questions and follow up with clarifying questions.

Internal Audit Process

School jurisdictions should have an internal audit function (if the jurisdiction's size and complexity warrant one) to assess and report on the adequacy of the internal controls. The internal audit function, where appropriate, should be responsible for examining

- business strategies;
- budgeting and accounting systems;
- internal control and operational systems;
- compliance with policies, procedures, and legislation;
- economical and efficient use of resources; and
- the effectiveness of operations.

Capacity Building for School Board Trustees and Superintendents

School jurisdictions and school boards should ensure that superintendents and trustees have access to financial training on a regular basis. Training should be provided, at minimum, in the following areas:

- governance—understanding roles and responsibilities of key stakeholders, and how provincial legislation and board policies impact jurisdiction operations;
- financial literacy—understanding the education funding system, risk assessment, financial terms and language, components of financial statements and how they relate to one other, and what questions to ask superintendents and senior administration in order to obtain relevant and useful information; and
- financial monitoring—understanding how to verify information received from superintendents and senior administration, the internal control process, and how audit committees and internal auditors can benefit the operational efficiency of the jurisdiction.

Specifically, financial literacy training should include

- the financial oversight responsibility of the board of trustees and management;
- how financial statements are prepared and analyzed;
- balance sheets, income statements, and statements of cash flow—how they are different and why they are all important;
- the importance of notes to the financial statements;
- how budgeting complements and supports financial reporting;
- interim reporting against budget;
- variance and comparative analysis;
- best practices for a strong internal control system, including the use of audit committees and internal auditors; and
- how to ask clarifying questions of management and external auditors.

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